

ment accounts, and to make payments for us by way of advances to the extent of about £300,000 (including £100,000 of old debentures falling due) in the course of the next three months.

We proposed that if the bills were found not to be negotiable, we should hold you harmless for loss of interest and charges which you might sustain by reason of your being obliged temporarily to borrow the money.

In doing so we stipulated that you should deliver up the instrument authorising you to issue £500,000 5 per cent. debentures, referred to in the correspondence of the 27th September last. For obvious reasons it would not have been prudent in us to place so large an amount of our securities out of reach, without making provision for at least three months ahead. We proposed the period of three months, because we thought, and still think, that that is the shortest period during which it would be practicable fairly to test all the colonial markets and to receive back advices. This offer you declined: in other words, with power over a million of our securities, you declined to increase our liability to you by the sum of £300,000 spread over a period of three months.

However, having been driven out of this proposal, and bowing to your determination not to commit yourselves to so large an engagement until you had tested the marketability of our securities, we thought that if we gave you a month to test their value by putting a small portion, say £150,000 or £200,000, on the Australian market, you would be enabled thereby to feel your way, being at liberty if they were found not to be negotiable to decline further advances. We, on our part, should thus have time to make provisional arrangements for carrying on the Government payments if you declined at the end of a month to continue them.

We made you a proposal to this effect, in a perfectly friendly spirit, and with a real desire on our part to continue our connection with your Bank; but the proposal was rejected by you, I must say with some asperity, you imputing to us an intention merely to gain time for the purpose of transferring our account to another Bank.

We assured you that this was not our object, though it was obvious that if you declined to carry on our account (which could only be done by advances on our securities till we could realize them) we should be forced to make arrangements with another bank to do so. Otherwise it would be simply impossible for us to carry on the Government.

You will, I am sure, admit that our first duty in such a case is to the colony, and that we are not justified in placing in jeopardy the important interests committed to us from any mere private considerations.

There can be no misunderstanding as to what really took place, and we cannot suppose that you desire that there should be any, although you have omitted in your letter to notice the following circumstance, which was of itself sufficiently indicative of our desire to treat with your bank in a fair and equitable spirit: when you stated that your bank had been obliged to pay heavy interest in excess of that which had been stipulated to be charged to the Government, we requested you to prefer your claim, and assured you that we would recommend our colleagues to entertain it favorably.

With reference to your remarks on my disinclination to commit myself to writing, I simply repeat what I said to you, that I considered it a mere waste of time for two contracting parties, living within so short a distance of each other, to carry on a negotiation by correspondence, but that so soon as the terms had been sufficiently matured between us in conference I would reduce them to writing.

If we understand this to be your absolute ultimatum, you will, I am sure, perceive that no alternative remains open to us but to make the necessary arrangements for negotiating our securities and carrying on our account through another Bank.

I have, &c.,

WILLIAM FITZHERBERT.

D. L. Murdoch, Esq., Inspector, Bank of New Zealand, Auckland.

No. 4.

AGREEMENT between the NEW ZEALAND GOVERNMENT and the BANK OF NEW ZEALAND.

Auckland, 29th December, 1864.

It is this day agreed between the General Government of New Zealand and the Bank of New Zealand—

1st. That power to make and issue debentures for £750,000 be given to the Bank; £50,000 to be offered in New Zealand, £200,000 in Australia, and £500,000 in London, of which latter amount the Bank of New Zealand agree to take £100,000 at par, with a twelve months' currency, in lieu of the Treasury bills now in the hands of the Bank for that amount, and which mature in January, February, and March; this transaction to take effect from to-day, the interest up to the period of issue of the bills in London to be matter of account to be adjusted here.

2nd. That the bank advance upon these debentures for the ordinary requirements of the Government, at the rate of £60,000 per month, for two months from 31st instant.

3rd. That in consideration of the greatly increased rate of interest at which the Bank has been borrowing money for the wants of the Government, as compared with the rate allowed by agreement, that 7 per cent. be substituted in lieu of 5 per cent., on all balances due by the Government, since date of £400,000 being paid the Bank in London.

4th. The Bank to have power to hypothecate the debentures either in the colonies or London, should they prove unsaleable at or above par, all expense of such hypothecation, beyond the rate of interest allowed the Bank on advances, to be borne by the Government.

5th. A commission of $\frac{1}{2}$ per cent. clear to be allowed the Bank for negotiation of the debentures. All other needful expenses incurred by the Bank in the negotiation of the debentures to be defrayed by Government.

(For the Bank of New Zealand),

L. D. MURDOCH, Inspector,

WILLIAM FITZHERBERT, Colonial Treasurer.